

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

Subject:	Credit Enhancement Program- School Bond Credit Enhancement	Item Number: <u>6</u>
		Attachment(s): <u>1</u>

Action:	<u>X</u>	Date of Meeting:	<u>July 7, 1999</u>
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Information:	<u></u>	Presenters:	<u>Mr. Rose</u>
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EXECUTIVE SUMMARY

One of the objectives for the Investment Branch was to "Establish a School Bond Credit Enhancement Program." Since 1994, CalSTRS has provided credit enhancement to governmental entities and private activity corporations providing industrial development, healthcare, pollution control, and multifamily housing. Last month a blueprint of a School Bond Program (Program) was presented to the Investment Committee. The State Treasurers Office, through the California School Financing Authority (CSFA), has developed a Program designed to provide school districts a menu of financing options from which they can choose including both a fixed rate and variable rate financing structure. Within each financing structure a pooling concept could be utilized, if necessary. The Program would also offer an intercept mechanism as an alternative to a more conventional structure.

Existing Credit Enhancement Program policy allows CalSTRS to provide credit enhancement to employing agencies, including California school districts, up to the IRS Safe Harbor guideline of twenty-five percent. In making the investment decision for employing agencies, staff must utilize the same criteria as other credit enhancement opportunities. One requirement is that the enhanced entity must have an investment grade credit rating or equivalent.

For clarity, staff is requesting that the financing Program offered through CSFA be formally included as a financing vehicle subject to the IRS safe harbor limitations. The Program includes the financing of school debt on a pooled basis and could provide for an intercept mechanism offered by the State Controller based on the borrower's needs and underwriter's requirements. Attachment 1 provides a summary of terms and conditions for the variable rate product. The fixed rate product is in a developmental stage.

RECOMENDATION

Staff recommends approval of the resolution included in Attachment 2 that formally authorizes CalSTRS to participate in pooled credit enhancement transactions through the California School Finance Authority.

California School Finance Authority (CSFA)
Summary Variable Rate Program Terms and Conditions

This program is aimed at issuers who seek to benefit from the potential savings involved with floating rate debt on either an interim or a long-term basis.

SCHOOL ISSUING AUTHORITY: California School Financing Authority

CREDIT UNDERWRITERS: 25% CalSTRS and 75% other financial institutions, primarily commercial banks

UNDERWRITING TERM: Three to five years (at which time the credit underwriters can exit the commitment provided there is a substitute credit provider)

INTEREST RATE: Variable rate (typically adjusted each week)

FINANCING VEHICLE: Certificates of Participation (COP's) or General Obligation Bonds (GO's)

UNDERWRITING STANDARDS: To be determined by the credit underwriters (identified above)

INTERCEPT BY STATE CONTROLLER: One option uses the intercept language (smaller issues, unrated, or non-investment grade entities) and one option uses conventional language for higher rated entities (without the intercept language)

ROLE FOR CALSTRS: Letter-of Credit or Liquidity Facility

RISKS TO CALSTRS: Credit risk of the employing agency and abatement risk for certificate of participation

RESOLUTION OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: School Bond Credit Enhancement

Resolution No. _____

WHEREAS, the Investment Committee of the California State Teachers' Retirement Board is responsible for recommending to the Board, investment policy and overall investment strategy; and

WHEREAS, the Investment Committee has previously amended the Credit Enhancement Policy for employing agencies, including school districts, with limitations established in the Internal Revenue Service code safe harbor provisions of twenty-five percent of a transaction; and

WHEREAS, the Investment Committee has received and reviewed the proposed school bond credit enhancement structure being considered by the California School Financing Authority, and has heard oral presentations from Staff; therefore be it

RESOLVED, that the Investment Committee of the California State Teachers' Retirement Board authorizes CalSTRS to participate in the pooled credit enhancement transactions through the California School Finance Authority.

Adopted by:
Investment Committee
On _____

James D. Mosman
Chief Executive Officer